EAST PENDLETON COUNTY
WATER DISTRICT
Falmouth, Kentucky

FINANCIAL STATEMENTS
December 31, 2022 and 2021

C O N T E N T S

INDEPENDENT AUDITORS' REPORT

The Board of Commissioners
East Pendleton County Water District
Falmouth, Kentucky

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the East Pendleton County Water District (the District), as of and for the years ended December 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the East Pendleton County Water District, as of December 31, 2022 and 2021, and the respective changes in financial position, and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the pension and OPEB schedules on pages 22–25 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB) who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the Management Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2023, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

RFH

RFH, PLLC
Lexington, Kentucky
March 27, 2023

EAST PENDLETON COUNTY WATER DISTRICT
STATEMENTS OF NET POSITION
December 31,

	2022	2021
ASSETS		
Current assets		
Cash	$ 631,420	$ 765,843
Customer accounts receivable, net	95,022	90,093
Inventory	30,864	30,511
Total current assets	757,306	886,447
Restricted assets		
Cash	201,580	413,629
Cash - construction	337,644	337,476
Certificates of deposit	124,175	123,611
Total restricted assets	663,399	874,716
Capital assets		
Property, plant and equipment - Water	7,975,232	7,616,607
Less: accumulated depreciation - Water	(4,018,577)	(3,926,911)
Property, plant and equipment - Sewer	38,351	38,351
Less: accumulated depreciation - Sewer	(32,950)	(32,109)
Total capital assets	3,962,056	3,695,938
Total assets	5,382,761	5,457,101
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows - pension	82,630	105,586
Deferred outflows - OPEB	97,755	145,837
Total deferred outflows of resources	180,385	251,423
Total assets and deferred outflows of resources	$ 5,563,146	$ 5,708,524
LIABILITIES		
Current liabilities		
Accounts payable	$ 94,641	$ 29,075
Accrued liabilities	15,478	18,732
Customer deposits	44,334	43,745
Accrued interest payable	7,067	5,824
Current portion of long-term debt	77,795	88,584
Total current liabilities	239,315	185,960
Noncurrent liabilities		
Net pension liability	840,156	841,349
Net OPEB liability	229,322	252,573
KIA notes payable, net of current portion	90,857	98,653
Bonds payable, net of current portion	350,000	643,600
Total noncurrent liabilities	1,510,335	1,836,175
Total liabilities	1,749,650	2,022,135
DEFERRED INFLOWS OF RESOURCES		
Defeasance on refunding	12,111	12,784
Deferred inflows - pension	79,236	120,303
Deferred inflows - OPEB	107,909	115,283
Total deferred inflows of resources	199,256	248,370
NET POSITION		
Net investment in capital assets	3,443,404	2,865,101
Restricted for debt service	148,473	360,549
Restricted for depreciation	177,282	176,691
Unrestricted	(154,919)	35,678
Total net position	3,614,240	3,438,019
Total liabilities, deferred inflows of resources and net position	$ 5,563,146	$ 5,708,524

The accompanying notes are an integral part of the financial statements.

EAST PENDLETON COUNTY WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
for the years ended December 31,

	2022	2021
OPERATING INCOME		
Water sales	$ 1,277,419	$ 1,237,946
Sewer sales	20,363	20,019
Other revenue	35,876	25,211
Total operating income	1,333,658	1,283,176
OPERATING EXPENSES		
Water purchases	249,906	235,514
Pumping	44,930	34,731
Operation	299,498	287,350
Maintenance	1,293	1,873
General and administrative	414,921	436,590
Sewer expenses	15,809	15,612
Total operating expense	1,026,357	1,011,670
Operating income before depreciation	307,301	271,506
Depreciation expense	(155,649)	(138,773)
OPERATING INCOME	151,652	132,733
Non-operating income (expense)		
Gain on disposal of assets	17,698	-
Interest income	689	1,955
Interest expense	(19,995)	(28,309)
Total non-operating income (expense)	(1,608)	(26,354)
INCOME BEFORE CAPITAL CONTRIBUTIONS	150,044	106,379
Capital contributions		
Tap fees	26,177	21,841
Change in net position	176,221	128,220
Net position, beginning of year	3,438,019	3,309,799
NET POSITION, END OF YEAR	$ 3,614,240	$ 3,438,019

The accompanying notes are an integral
part of the financial statements.

EAST PENDLETON COUNTY WATER DISTRICT
STATEMENTS OF CASH FLOWS
for the years ended December 31,

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 1,328,729	$ 1,285,607
Payments to suppliers	(544,834)	(499,961)
Payments for employee services and benefits	(487,165)	(447,921)
Net cash provided by operating activities	296,730	337,725
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Retirement of debt principal	(312,184)	(88,680)
Interest paid	(19,425)	(34,771)
Purchase of capital assets	(355,425)	(128,494)
Proceeds from sale of capital assets	17,698	-
Tap fees	26,177	21,841
Net cash (used in) capital and related financing activities	(643,159)	(230,104)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from certificates of deposit	-	60,664
Interest income	125	1,955
Net cash provided by investing activities	125	62,619
NET (DECREASE) INCREASE IN CASH	(346,304)	170,240
Cash, beginning of year	1,516,948	1,346,708
CASH, END OF YEAR	$ 1,170,644	$ 1,516,948
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 151,652	$ 132,733
Noncash items included in operating income:		
Depreciation	155,649	138,773
Net change in pension liability	(19,304)	52,556
Net change in OPEB liability	17,457	12,606
Changes in assets and liabilities:		
(Increase) decrease in accounts receivables	(4,929)	2,431
(Increase) decrease in inventory	(353)	(5,803)
Increase (decrease) in accounts payable	(777)	1,117
Increase (decrease) in accrued liabilities	(3,254)	4,202
Increase (decrease) in customer deposits	589	(890)
Net cash provided by operating activities	$ 296,730	$ 337,725
Supplemental disclosure of cash flow information		
Non-cash capital and related financing information:		
Capital asset additions included in accounts payable	$ 66,343	$ -
Amortization of defeasance on refunding	673	673
	$ 67,016	$ 673
Components of cash on the Statement of Net Position		
Cash	$ 631,420	$ 765,843
Restricted cash	201,580	413,629
Construction	337,644	337,476
	$ 1,170,644	$ 1,516,948

The accompanying notes are an integral part of the financial statements.

1. ORGANIZATION AND ACCOUNTING POLICIES

The East Pendleton County Water District (the District) was created and organized as a public body incorporated in Pendleton County, Kentucky, pursuant to Chapter 74 of the Kentucky Revised Statutes, by the Pendleton County Fiscal Court, to operate a water distribution system.

Reporting Entity

The East Pendleton County Water District's financial statements include the operations of all entities for which the District exercises oversight responsibility. Oversight responsibility includes, but is not limited to, financial interdependency, selection of the governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters.

There are no other entities that are subject to the District's oversight responsibility as indicated above.

Basis of Accounting

The net position of the District is classified into three categories; net investment in capital assets, restricted and unrestricted. The restricted net assets consist of reserves for bond retirement and depreciation costs relating to the construction, replacement, extension, additions and/or improvements to the system in addition to customer deposits. These reserves are discussed in Note 5.

When both restricted and unrestricted resources are available for use, the District’s Board of Commissioners makes a determination as to which resource should be used first.

The accrual basis of accounting is utilized by the District. Under this method, revenues are recognized when earned and expenses are recognized when incurred.

The District reports all revenues and expenses as operating, except interest income, interest expense, amortization, gains and losses on disposal of assets, and capital contributions.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the District defines cash as cash on hand, cash in bank, money market funds in both unrestricted and restricted accounts, and certificates of deposit with an initial maturity of less than 90 days.

Accounts Receivable

The District's accounts receivable reserve represents its estimate of all uncollectible accounts. The reserve at both December 31, 2022 and 2021 totaled $11,275.

Inventory

The District’s inventory is composed of chemicals, equipment and supply-type items used for routine maintenance, repairs and new water lines. The inventory is stated at the lower of cost (first-in, first-out method) or market.

Capital Assets

Capital assets are recorded at cost. Depreciation has been provided using the straight-line method over the estimated useful life of the asset, which ranges from 7 - 62.5 years. Land and land rights are not subject to depreciation.

1. ORGANIZATION AND ACCOUNTING POLICIES (CONTINUED)

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the County Employees' Retirement System (CERS) and additions to/deductions from CERS' fiduciary net position have been determined on the same basis as they are reported by CERS. For this purpose, benefit payments, (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the County Employees' Retirement System (CERS) and additions to/deductions from CERS' fiduciary net position have been determined on the same basis as they are reported by CERS. For this purpose, benefit payments, including refunds of employee contributions, are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

Change in Accounting Policy

The East Pendleton County Water District implemented Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*. GASB Statement No. 87 enhances the relevance and consistency of information of the government's leasing activities. It establishes requirements for lease accounting based on the principle that leases are financings of the right to use an underlying asset. A lessee is required to recognize a lease receivable and an intangible right to use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. These changes had no effect on the financial statements.

Management's Review of Subsequent Events

The District has evaluated and considered the need to recognize or disclose subsequent events through March 27, 2023, which represents the date that these financial statements were available to be issued. Subsequent events past this date, as they pertain to the year ended December 31, 2022, have not been evaluated by the District.

2. CASH AND INVESTMENTS

KRS 66.480 authorizes the District to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which have a physical presence in Kentucky and are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4). The Statute also authorizes investment in mutual funds, exchange traded funds, individual equity securities and high-quality corporate bonds that are managed by a professional investment manager and subject to additional requirements outlined in KRS 66.480.

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. In order to anticipate market changes and provide a level of security for all funds, the collateralization level shall be one hundred percent of the market value of the principal, plus accrued interest.

The District's deposits and investments at December 31, 2022 and 2021, were entirely covered by Federal Depository Insurance or by collateral held by the custodial banks in the District's name.

Additionally, as of December 31, 2022 and 2021, the District had $84,033 and $89,565, respectively, in a money market account that is invested in government obligations.

The tables presented below are designed to disclose the level of custodial credit risk assumed by the District, based upon how its deposits were insured or secured with collateral at December 31, 2022 and 2021. The categories of credit risk are defined as follows:

(1) Insured or collateralized with securities held by the government or by its agent in the government's name.
(2) Collateralized with securities held by the pledging financial institution's trust department or agent in the government's name.
(3) Uncollateralized, including any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the government's name.

The level of custodial credit risk assumed by the District, based upon how its deposits were insured or secured with collateral at December 31, 2022 were as follows:

	Category			Total	Total
				Bank	Carrying
Type of Deposit	1	2	3	Amount	Amount
Cash	$ 1,176,343	$ -	$ -	$ 1,176,343	$ 1,170,644
Certificates of deposit	124,175	-	-	124,175	124,175
	$ 1,300,518	$ -	$ -	$ 1,300,518	$ 1,294,819

2. CASH AND INVESTMENTS (CONTINUED)

The level of custodial credit risk assumed by the District, based upon how its deposits were insured or secured with collateral at December 31, 2021 were as follows:

Type of Deposit	Category 1	Category 2	Category 3	Total Bank Amount	Total Carrying Amount
Cash	$ 1,516,501	$ -	$ -	$ 1,516,501	$ 1,516,948
Certificates of deposit	123,611	-	-	123,611	123,611
	$ 1,640,112	$ -	$ -	$ 1,640,112	$ 1,640,559

3. CAPITAL ASSETS

The following is a summary of capital asset activity during the year ended December 31, 2022:

	Balance 12/31/2021	Additions	Disposals	Balance 12/31/2022
Capital assets not depreciated:				
Organizational costs	$ 7,200	$ -	$ -	$ 7,200
Water land	16,157	-	-	16,157
Sewer land	1,168	-	-	1,168
Totals	24,525	-	-	24,525
Capital assets being depreciated:				
Water property and equipment	7,593,250	421,767	(63,142)	7,951,875
Sewer property and equipment	37,183	-	-	37,183
Totals	7,630,433	421,767	(63,142)	7,989,058
Less: accumulated depreciation	3,959,020	155,649	(63,142)	4,051,527
Depreciable assets, net	3,671,413	266,118	-	3,937,531
Total capital assets, net	$ 3,695,938	$ 266,118	$ -	$ 3,962,056

3. CAPITAL ASSETS (CONTINUED)

The following is a summary of capital asset activity during the year ended December 31, 2021:

	Balance 12/31/2020	Additions	Disposals	Balance 12/31/2021
Capital assets not depreciated:				
Organizational costs	$ 7,200	$ -	$ -	$ 7,200
Water land	16,157	-	-	16,157
Sewer land	1,168	-	-	1,168
Totals	24,525	-	-	24,525
Capital assets being depreciated:				
Water property and equipment	7,464,756	128,494	-	7,593,250
Sewer property and equipment	37,183	-	-	37,183
Totals	7,501,939	128,494	-	7,630,433
Less: accumulated depreciation	3,820,247	138,773	-	3,959,020
Depreciable assets, net	3,681,692	(10,279)	-	3,671,413
Total capital assets, net	$ 3,706,217	$ (10,279)	$ -	$ 3,695,938

Depreciation expense totaled $155,649 and $138,773 for the years ended December 31, 2022 and 2021, respectively.

4. LONG-TERM DEBT

The following is a summary of the bonds and notes outstanding for the District for the years ended December 31:

Bonds and Notes	2022	2021
USDA, Rural Development Bond - $195,000, dated 2/22/07. Paid off during 2022	$ -	$ 151,600
USDA, Rural Development Bond - $100,000, dated 2/22/07. Paid off during 2022.	-	78,000
Kentucky Infrastructure Authority Loan - $160,000 dated 6/1/14 with payments through 2033, bearing interest at a rate of 2.75%.	98,652	106,237
Kentucky Rural Water Finance Corp. Bond - $895,000, dated 2/19/15 with payments through 2041, bearing interest at 2.25 – 3.625%.	420,000	495,000
Totals	518,652	830,837
Less: current portion of debt	(77,795)	(88,584)
Long-term debt	$ 440,857	$ 742,253

4. LONG-TERM DEBT (CONTINUED)

The annual requirements to amortize direct placement bonds outstanding as of December 31, 2022 are as follows:

Year Ending December 31,	Principle	Interest	Payment
2023	$ 70,000	$ 12,844	$ 82,844
2024	75,000	10,488	85,488
2025	75,000	8,050	83,050
2026	10,000	6,669	16,669
2027	10,000	6,344	16,344
2028-2032	50,000	26,844	76,844
2033-2037	70,000	17,128	87,128
2038-2041	60,000	4,313	64,313
	$ 420,000	$ 92,680	$ 512,680

The annual requirements to amortize direct borrowing loans outstanding as of December 31, 2022 are as follows:

Year Ending December 31,	Principle	Interest	Payment
2023	$ 7,795	$ 2,659	$ 10,454
2024	8,010	2,444	10,454
2025	8,232	2,222	10,454
2026	8,460	1,994	10,454
2027	8,694	1,760	10,454
2028-2032	47,219	5,053	52,272
2033	10,242	212	10,454
	$ 98,652	$ 16,437	$ 114,996

The following is a summary of changes in long-term debt and net pension liability for the year ended December 31, 2022:

	December 31, 2021	Additions	Retirements	December 31, 2022	Due Within One Year
Net pension liability	$ 841,349	$ -	$ (1,193)	$ 840,156	$ -
Net OPEB liability	252,573	-	(23,251)	229,322	-
Bonds payable	724,600	-	(304,600)	420,000	70,000
Notes payable	106,237	-	(7,584)	98,652	7,795
Total	$ 1,924,759	$ -	$ (336,628)	$ 1,588,131	$ 77,795

4. LONG-TERM DEBT (CONTINUED)

The following is a summary of changes in long-term debt and net pension liability for the year ended December 31, 2021:

	December 31, 2020	Additions	Retirements	December 31, 2021	Due Within One Year
Net pension liability	$ 957,973	$ -	$ (116,624)	$ 841,349	$ -
Net OPEB liability	301,499	-	(48,926)	252,573	-
Bonds payable	805,900	-	(81,300)	724,600	81,000
Notes payable	113,617	-	(7,380)	106,237	7,584
Total	$ 2,178,989	$ -	$ (254,230)	$ 1,924,759	$ 88,584

5. COMPLIANCE WITH BOND RESOLUTIONS

The bond resolutions require the District to maintain certain reserves as follows:

Reserve Fund – This reserve is to receive a monthly transfer of $483 until a balance of $58,000 is accumulated for all bond issues. In addition, this reserve is to receive all proceeds collected from potential customers to aid construction of extensions and any insurance proceeds from property damage. Funds may be used only for the purpose of paying the cost of unusual or extraordinary maintenance and repairs not included in the budget and cost of constructing extensions or improvements to the system. The Reserve Fund balance totaled $173,682 and $173,491 at December 31, 2022 and 2021, respectively.

Maintenance and Replacement Reserve – This reserve is to receive an amount equal to ten percent of the amount of loan payments until the amount on deposit is equal to five percent of the original principal amount of the loan. Funds may be used for extraordinary maintenance expenses related to the water tank painting project or for the costs of replacing worn or obsolete portions of the project. At December 31, 2022 and 2021 the Maintenance and Replacement Reserve totaled $3,600 and $3,200, respectively.

Bond and Interest Sinking Fund – This reserve is to receive a monthly transfer of 1/12 of the next interest due and 1/12 of the next principal due. In addition, this reserve is to receive any excess revenues at the close of each year after provision of anticipated operating expenses for a two-month period. This reserve can only be used to pay debt service on the bond issues. The Bond and Interest Sinking Fund balances totaled $148,473 and $360,594 at December 31, 2022 and 2021, respectively.

6. RETIREMENT PLAN

The East Pendleton County Water District is a participating employer of the County Employees' Retirement System (CERS). Under the provisions of Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Public Pensions Authority administers the CERS. The plan issues publicly available financial statements which may be downloaded from the Kentucky Public Pensions Authority website.

Plan Description – CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the System. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living (COLA) adjustments are provided at the discretion of state legislature.

6. RETIREMENT PLAN (CONTINUED)

Contributions – For the year ended December 31, 2022, plan members were required to contribute 5% of wages for non-hazardous job classifications. Employees hired after September 2008 are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers are required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545 (33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium.

The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended December 31, 2022, participating employers contributed 26.95% through June 30th and 26.79% thereafter, of each non-hazardous employee's wages, which is equal to the actuarially determined rate set by the Board. The contributions are allocated to both the pension and insurance trust. The insurance trust is more fully described in Note 7. Plan members contributed 22.78% through June 30th and 23.40% thereafter to the pension trust for non-hazardous job classifications for the year ended December 31, 2022. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

Plan members who began participating on, or after, January 1, 2014, are required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Plan members contribute 5% of wages to their own account and 1% to the health insurance fund. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of each member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. For non-hazardous members, their account is credited with a 4% employer pay credit. The employer pay credit represents a portion of the employer contribution.

The District contributed $75,476 for the year ended December 31, 2022, or 100% of the required contribution for non-hazardous job classifications. The District contributed $70,819 for the year ended December 31, 2021, or 100% of the required contribution for non-hazardous job classifications.

Benefits – CERS provides retirement, health insurance, death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years' service.

For retirement purposes, employees are grouped into three tiers based on hire date:

Tier 1	Participation date	Before September 1, 2008
	Unreduced retirement	27 years service or 65 years old and 4 years service
	Reduced retirement	At least 5 years service and 55 years old or 25 years service and any age
Tier 2	Participation date	September 1, 2008 - December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old or age 57+ and sum of service years plus age equal to 87+
	Reduced retirement	At least 10 years service and 60 years old
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old or age 57+ and sum of service years plus age equal to 87+
	Reduced retirement	Not available

6. RETIREMENT PLAN (CONTINUED)

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years' service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are $5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and $10,000 plus 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits.

Pension Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources – At December 31, 2022, the District reported a net pension liability of $840,156 for its proportionate share of the total net pension liability. The net pension liability was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2021 and was rolled forward using generally accepted actuarial procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2022, the District's proportion was 0.011622 percent, which was a decrease of 0.001574 percent from its proportion measured as of June 30, 2021.

For the year ended December 31, 2022, the District recognized pension expense of $58,919. For the year ended December 31, 2021, the District recognized pension expense of $120,632. At December 31, 2022, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual results	$ 898	$ 7,482
Changes of assumptions	-	-
Net difference between projected and actual earnings on Plan investments	21,538	-
Changes in proportion and differences between District contributions and proportionate share of contributions	19,069	71,754
District contributions subsequent to the measurement date	41,125	-
Total	$ 82,630	$ 79,236

The $41,125 of deferred outflows of resources resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources as of December 31, 2022 will be recognized in pension expense as follows:

Year ending December 31,	
2023	$ (21,608)
2024	$ (32,930)
2025	$ (7,060)
2026	$ 23,867

6. RETIREMENT PLAN (CONTINUED)

Actuarial Assumptions – The total pension liability in the June 30, 2022, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.30%
Salary increases	3.30% to 10.30%, varies by service
Investment rate of return	6.25%, net of Plan investment expense, including inflation

The mortality table used for active members was a Pub-2010 General Mortality table, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. The mortality table used for healthy retired members was a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2020. The mortality table used for the disabled members was PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

The actuarial assumption used in the June 30, 2022 valuation was based on the results of an actuarial experience study for the period July 1, 2013 - June 30, 2018. The total pension liability was rolled-forward from the valuation date (June 30, 2021) to the plan's fiscal year ending June 30, 2022.

The long-term expected rate of return was determined by using a building-block method in which best estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. As of December 31, 2022, the target allocation and best estimates of nominal real rates of return for each major asset class are summarized in the following table:

Asset Class	**Target Allocation**	**Long-Term Expected Real Rate of Return**
Equity	**60.00%**	
Public Equity	50.00%	4.45%
Private Equity	10.00%	10.15%
Fixed Income	**20.00%**	
Core Bonds	10.00%	0.28%
Specialty Credit/High Yield	10.00%	2.28%
Cash	0.00%	-0.91
Inflation Protected	**20.00%**	
Real Estate	7.00%	3.67%
Real Return	13.00%	4.07%
Total	**100.00%**	**4.28%**
Long term inflation assumption		**2.30%**
Expected nominal return for portfolio		**6.58%**

Discount Rate – The discount rate used to measure the total pension liability was 6.25 percent. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the closed 30-year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period. The discount rate determination does not use a municipal bond rate.

6. RETIREMENT PLAN (CONTINUED)

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 6.25 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.25 percent) or 1-percentage-point higher (7.25 percent) than the current rate:

	Discount rate	District's proportionate share of net pension liability
1% decrease	5.25%	$ 1,050,091
Current discount rate	6.25%	$ 840,156
1% increase	7.25%	$ 666,522

Payable to the Pension Plan – At December 31, 2022 and 2021, the District reported a payable of $9,785 and $12,753 for the outstanding amount of contributions to the pension plan required for the years ended, respectively. The payable includes both the pension and insurance contribution allocation.

7. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Plan Description – As more fully described in Note 6, the District participates in the County Employees' Retirement System (CERS). CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the System. In addition to retirement benefits, the plan provides for health insurance benefits to plan members (other postemployment benefits or OPEB). OPEB benefits may be extended to beneficiaries of plan members under certain circumstances.

Contributions – As more fully described in Note 6, plan members contribute to CERS for non-hazardous job classifications. For the year ended December 31, 2022, the employer's contribution was 4.17% through June 30th and 3.39% thereafter to the insurance trust for non-hazardous job classifications. Employees hired after September 1, 2008, are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers are required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. The contribution rates are equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Public Pensions Authority are financed through employer contributions and investment earnings.

For the year ended December 31, 2022, the District contributed $12,246, or 100% of the required contribution for non-hazardous job classifications. For the year ended December 31, 2021, the District contributed $14,996, or 100% of the required contribution for non-hazardous job classifications.

7. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

Benefits – CERS provides health insurance benefits to Plan employees and beneficiaries.

For retirement purposes, employees are grouped into three tiers based on hire date:

Tier 1	Participation date	Before July 1, 2003
	Insurance eligibility	10 years of service credit required
	Benefit	Set percentage of single coverage health insurance based on service credit accrued at retirement
Tier 1	Participation date	Before September 1, 2008 but after July 1, 2003
	Insurance eligibility	10 years of service credit required
	Benefit	Set dollar amount based on service credit accrued, increased annually
Tier 2	Participation date	After September 1, 2008 and before December 31, 2013
	Insurance eligibility	15 years of service credit required
	Benefit	Set dollar amount based on service credit accrued, increased annually
Tier 3	Participation date	After December 31, 2013
	Insurance eligibility	15 years of service credit required
	Benefit	Set dollar amount based on service credit accrued, increased annually

OPEB Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources – At December 31, 2022, the District reported a liability for its proportionate share of the net OPEB liability of $229,322. The net OPEB liability was measured as of June 30, 2022, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2021 and was rolled forward using generally accepted actuarial procedures. The District's proportion of the net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating entities, actuarially determined. The District's proportionate share at June 30, 2022 was 0.011620 percent, which was a decrease of 0.001574 percent from its proportion measured as of June 30, 2021.

For the year ended December 31, 2022, the District recognized OPEB expense of $34,333. At December 31, 2022, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual results	$ 23,083	$ 52,589
Changes of assumptions	36,269	29,885
Net difference between projected and actual earnings on Plan investments	9,307	-
Changes in proportion and differences between District contributions and proportionate share of contributions	14,870	25,435
District contributions subsequent to the measurement date	14,226	-
Total	$ 97,755	$ 107,909

7. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

The $14,226 of deferred outflows of resources resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending December 31, 2023. This includes an adjustment of $8,268 related to the implicit subsidy, which is required to be recognized as a deferred outflow of resources. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in expense as follows:

Year ending December 31,		
2023	$	(876)
2024	$	(1,790)
2025	$	(17,357)
2026	$	(4,357)

Actuarial Assumptions – The total OPEB liability in the June 30, 2022, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Non-hazardous	
Inflation	2.30%
Salary increases	3.30 to 10.30%, average, including inflation
Investment rate of return	6.25%, net of Plan investment expense, including inflation
Healthcare Trend Rates	
Pre – 65	Initial trend starting at 6.40% at January 1, 2022, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Post – 65	Initial trend starting at 6.30% in 2023, then gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.

The mortality table used for active members was a Pub-2010 General Mortality table, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. The mortality table used for healthy retired members was a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019. The mortality table used for the disabled members was PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

The actuarial assumption used in the June 30, 2022 valuation was based on the results of an actuarial experience study for the period July 1, 2013 - June 30, 2018. The total OPEB liability was rolled-forward from the valuation date (June 30, 2021) to the plan's fiscal year ending June 30, 2022.

7. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

The long-term expected rate of return was determined by using a building-block method in which best estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. The target allocation and best estimates of arithmetic real rate of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Equity	**60.00%**	
Public Equity	50.00%	4.45%
Private Equity	10.00%	10.15%
Fixed Income	**20.00%**	
Core Bonds	10.00%	0.28%
Specialty Credit/High Yield	10.00%	2.28%
Cash	0.00%	-0.91
Inflation Protected	**20.00%**	
Real Estate	7.00%	3.67%
Real Return	13.00%	4.07%
Total	**100.00%**	**4.28%**
Long term inflation assumption		**2.30%**
Expected nominal return for portfolio		**6.58%**

Discount Rate – The discount rate used to measure the total OPEB liability as of June 30, 2022 was 5.70% for non-hazardous classifications. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 24-year amortization period of the unfunded actuarial accrued liability. As of June 30, 2022, the discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 2.45%, as reported in Fidelity Index's "20 –Year Municipal GO AA Index". However, the cost associated with the implicit employer subsidy was not included in the calculation of the System's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate – The following presents the District's proportionate share of the net OPEB liability calculated using the discount rate as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	Discount rate	Proportionate share of net OPEB liability
1% decrease	4.70%	$ 306,567
Current discount rate	5.70%	$ 229,322
1% increase	6.70%	$ 165,466

7. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate – The following presents the District's proportionate share of the net OPEB liability calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

		Proportionate share of net OPEB liability
1% decrease	$	170,496
Current trend rate	$	229,322
1% increase	$	299,962

OPEB plan fiduciary net position – Detailed information about the OPEB plan's fiduciary net position is available in the separately issued financial report.

8. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In addition to its general liability insurance, the District also carries commercial insurance for all other risks of loss such as worker's compensation and employee health and accident coverage. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

9. COVID-19 PANDEMIC

Since 2020, various restrictions have been placed on utilities in the state of Kentucky in response to the COVID-19 pandemic. These restrictions included the cessation of utility shutoffs and the charging of penalties due to nonpayment of bills for a period in 2020. As a result of these orders and the impact of COVID-19 on the District's customers, the District established payment plans with customers who have delinquent bills in an attempt to ensure continuous service and the collection of past due balances. The District expects to substantially collect the delinquent bills on payment plans and has not estimated an allowance for doubtful accounts as a result.

REQUIRED SUPPLEMENTARY INFORMATION

EAST PENDLETON COUNTY WATER DISTRICT
REQUIRED SUPPLEMENTARY SCHEDULE
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
Last Nine Fiscal Years

Reporting Year End (Measurement Date)	**December 31, 2014 (June 30, 2014)**	**December 31, 2015 (June 30, 2015)**	**December 31, 2016 (June 30, 2016)**	**December 31, 2017 (June 30, 2017)**	**December 31, 2018 (June 30, 2018)**	**December 31, 2019 (June 30, 2019)**	**December 31, 2020 (June 30, 2020)**	**December 31, 2021 (June 30, 2021)**	**December 31, 2022 (June 30, 2022)**
District's proportion of the net pension liability	0.012943%	0.012205%	0.009370%	0.011109%	0.011313%	0.012199%	0.012490%	0.013196%	0.011622%
District's proportionate share of the net pension liability (asset)	$ 420,000	$ 524,772	$ 461,342	$ 650,244	$ 688,996	$ 857,961	$ 957,973	$ 841,349	$ 840,156
District's covered employee payroll	$ 296,939	$ 271,260	$ 209,696	$ 270,478	$ 280,393	$ 307,718	$ 319,921	$ 337,069	$ 321,372
District's share of the net pension liability (asset) as a percentage of its covered employee payroll	139.36%	193.46%	220.01%	240.41%	245.73%	278.81%	299.44%	249.61%	261.43%
Plan fiduciary net position as a percentage of the total pension liability	66.80%	59.97%	55.50%	53.32%	53.54%	50.45%	47.81%	57.33%	52.42%

Notes:
The above schedule will present 10 years of historical data, once available.

EAST PENDLETON COUNTY WATER DISTRICT
REQUIRED SUPPLEMENTARY SCHEDULE
CONTRIBUTIONS - PENSION
Last Ten Fiscal Years

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Contractually required employer contribution	$ 36,629	$ 40,040	$ 30,001	$ 27,596	$ 41,414	$ 44,288	$ 56,072	$ 63,893	$ 70,819	$ 75,476
Contributions relative to contractually required employer contribution	36,629	40,040	30,001	27,596	41,414	44,288	56,072	63,893	70,819	75,476
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
District's covered employee payroll	$ 295,298	$ 301,368	$ 239,531	$ 210,496	$ 292,976	$ 287,497	$ 315,253	$ 331,052	$ 336,182	$ 326,542
Employer contributions as a percentage of covered-employee payroll	12.40%	13.29%	12.52%	13.11%	14.14%	15.40%	17.79%	19.30%	21.07%	23.11%

EAST PENDLETON COUNTY WATER DISTRICT
REQUIRED SUPPLEMENTARY SCHEDULE
PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
Last Seven Fiscal Years

Reporting Year End (Measurement Date)	December 31, 2016 (June 30, 2016)	December 31, 2017 (June 30, 2017)	December 31, 2018 (June 30, 2018)	December 31, 2019 (June 30, 2019)	December 31, 2020 (June 30, 2020)	December 31, 2021 (June 30, 2021)	December 31, 2022 (June 30, 2022)
District's proportion of the net OPEB liability	0.011109%	0.011109%	0.011313%	0.012199%	0.012486%	0.013194%	0.011620%
District's proportionate share of the net OPEB liability (asset)	$ 175,173	$ 223,329	$ 200,860	$ 205,131	$ 301,499	$ 252,573	$ 229,322
District's covered employee payroll	$ 209,696	$ 270,478	$ 280,393	$ 307,718	$ 319,921	$ 337,069	$ 321,372
District's share of the net OPEB liability (asset) as a percentage of its covered employee payroll	83.54%	82.57%	71.64%	66.66%	94.24%	74.93%	71.36%
Plan fiduciary net position as a percentage of the total OPEB liability	unavailable	52.39%	57.62%	60.44%	51.67%	62.91%	60.95%

Notes:
The above schedule will present 10 years of historical data, once available.

EAST PENDLETON COUNTY WATER DISTRICT
REQUIRED SUPPLEMENTARY SCHEDULE
CONTRIBUTIONS - OPEB
Last Ten Fiscal Years

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Contractually required employer contribution	$ 20,114	$ 15,008	$ 11,577	$ 10,310	$ 14,042	$ 14,368	$ 15,781	$ 15,758	$ 14,996	$ 12,246
Contributions relative to contractually required employer contribution	20,114	15,008	11,577	10,310	14,042	14,368	15,781	15,758	14,996	12,246
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
District's covered employee payroll	$ 295,298	$ 301,368	$ 239,531	$ 210,496	$ 292,976	$ 287,497	$ 315,253	$ 331,052	$ 336,182	$ 326,542
Employer contributions as a percentage of covered-employee payroll	6.81%	4.98%	4.83%	4.90%	4.79%	5.00%	5.01%	4.76%	4.46%	3.75%

1. GENERAL INFORMATION

Contributions

Contractually required employer contributions reported on the Schedule of Contributions - Pensions exclude the portion of contributions paid to CERS but allocated to the insurance fund of the CERS. The insurance contributions are reported on the Schedule of Contributions - OPEB.

Payroll

The District's covered payroll reported on the Schedule of Proportionate Share of the Net Pension Liability and the Schedule of Proportionate Share of the Net OPEB Liability is for the corresponding measurement date of the net liabilities and differs from the District's calendar year payroll as reported on the Schedule of Contributions for Pension and OPEB.

2. CHANGES OF ASSUMPTIONS

December 31, 2022 – Pension and OPEB

The following change in assumptions was made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2022 for OPEB:

- The initial healthcare trend rate for pre-65 was changed from 6.30% to 6.40%.

December 31, 2021 – Pension and OPEB

The following change in assumptions was made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2021, for OPEB:

- The initial healthcare trend rate for pre-65 was changed from 6.40% to 6.30%. The initial healthcare trend rate for post-65 was changed from 2.90% to 6.30%.

December 31, 2020 – Pension and OPEB

The following change in assumptions was made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2020, for OPEB:

- The initial healthcare trend rate for pre-65 was changed from 7% to 6.40%. The initial healthcare trend rate for post-65 was changed from 5% to 2.90%, which increases to 6.30% in 2023.

December 31, 2019 – Pension and OPEB

The following changes in assumptions were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2019, for both pension and OPEB:

- The assumed rate of salary increases was increased from 3.05% to 3.3% to 10.3% on average for non-hazardous and 3.05% to 3.55% to 19.05% on average for hazardous.

December 31, 2018 – Pension and OPEB

There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2018 for either pension or OPEB.

2. CHANGES OF ASSUMPTIONS (CONTINUED)

December 31, 2017 – Pension

The following changes in assumptions were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2017:

- The assumed rate of return was decreased from 7.5% to 6.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.3%.
- Payroll growth assumption was reduced from 4% to 2%

December 31, 2016 – Pension and OPEB

There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2016 for either pension or OPEB.

December 31, 2015 – Pension

The following changes in assumptions were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2015:

- The assumed rate of return was decreased from 7.75% to 7.5%.
- The assumed rate of inflation was reduced from 3.5% to 3.25%.
- The assumed rate of wage inflation was reduced from 1% to .75%.
- Payroll growth assumption was reduced from 4.5% to 4%.
- Mortality rates were based on the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
- For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females).
- For Disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.
- The assumed rates of retirement, withdrawal, and disability were updated to reflect experience more accurately.

December 31, 2014 – Pension

There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2014.

December 31, 2013 – Pension

The following assumptions were made by the Kentucky Legislature and reflected in the initial valuation performed as of June 30, 2013:

- The assumed rate of return was 7.75%.
- The assumed rate of inflation was 3.5%.
- The assumed rate of wage inflation was 1%.
- Payroll growth assumption was 4.5%.
- Mortality rates were based on the 1983 Group Annuity Mortality Table for all retired members and beneficiaries as of June 30, 2006. The 1994 Group Annuity Mortality Table was used for all other members.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Board of Commissioners
East Pendleton County Water District
Falmouth, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the East Pendleton County Water District, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise District's basic financial statements and have issued our report thereon dated March 27, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a material weakness (2022-001).

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

East Pendleton County Water District's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the District's response to the findings identified in our audit and described in the accompanying schedule of findings and responses. The District's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RFH

RFH, PLLC
Lexington, Kentucky
March 27, 2023

EAST PENDLETON COUNTY WATER DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
December 31, 2022

FINDING 2022-001 (recurring)

Criteria:
The District is required to have internal controls in place that enable it to prepare complete financial statements, including note disclosures, in compliance with generally accepted accounting principles.

Condition:
Management engaged the auditor to prepare draft financial statements, including the related notes to the financial statements.

Cause:
The District lacks personnel with the expertise to draft the financial statements, including related note disclosures, in conformity with generally accepted accounting principles.

Effect:
The auditor prepared draft financial statements, including the related notes to the financial statements. Management reviewed, approved and accepted responsibility for the financial statements prior to their issuance.

Recommendation:
We recommend management review the costs and benefits involved to retain a consultant with the required expertise to prepare the financial statements.

Response:
This is an ongoing finding. Management has determined that it is more cost effective to continue to engage the auditor to draft the financial statements and related notes. Management has reviewed and accepts responsibility for the financial statements.